B5350-2B 6/14/83

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JUNE 13, 1983 VOLUME XX, NUMBER 24

As Recovery Spreads . . .

Because the recovery is almost two quarters old, good news about the economy is appearing with increasing frequency. Evidence now suggests that the recovery is not only accelerating—it is becoming more broadly based as well. At the top of the economy's good news list is the employment situation. The civilian unemployment rate declined in May for the third consecutive month. At 10.1 per cent, it now stands seven tenths of a percentage point below the post World War II high of 10.8 per cent recorded in December, 1982. Total payroll employment increased by 374,000 jobs in May alone, bringing the total gain in employment since the end of last year to 900,000.

Although this year's gain in the number of jobholders recovers only one third of the nonfarm payroll jobs lost in the 1981-82 recession, it is encouraging that the gain has been shared by all major industry groups. The construction industry, which was hard-hit by the recession, added 80,000 jobs in May, following an increase of 30,000 jobs in April. Employment in manufacturing, another sector severely affected by the recession, has risen by 210,000 jobs in the last two months. The increases were paced by advances in major metals and metal-using industries as well as industries associated with the construction sector—lumber, stone, clay and glass, and furniture. Needless to say, employment in the service sector continued to expand briskly, rising in May by 120,000 jobs, following large gains in the previous two months.

Perhaps the greatest improvement occurred in the automobile and housing industries—the two most powerful engines behind the current recovery. The nation's automakers reported that their sales for the month of May reached a seasonally adjusted annual rate of 6.7 million units—the highest level for that month in four years and a 40 per cent improvement from mid-1982. This pick-up in domestic auto sales has enabled the automakers to increase their payrolls by 105,000 workers since November, 1982, and to cut the industry's unemployment rate almost in half during this time—from 23.3 per cent in November, 1982 to 13.1 per cent last month.

The housing industry has perked up as well. In the first four months of 1983, housing starts were running at almost double the rate of the same period a year ago. The number of new homes sold so far this year is 60 per cent higher than sales in the same four months of 1982. The improvement in housing has had a ripple effect throughout the economy. As a result of the housing recovery, many sawmills that had been closed for months have begun humming again. Lumber production so far this year has been running almost 40 per cent above last year's levels. The pick-up in housing starts is also helping sales of household big-ticket items. April's shipments of furnishings, furniture and appliances rose 16 per cent from last December, seasonally adjusted, and April's 3.5 per cent increase in new orders implies future production increases in the consumer durable goods industries.

For the last ten weeks, domestic raw steel output—an upstream industry of auto and other durable goods production—has been above year-ago levels. This is the first such rise since October, 1981. Steel output now stands almost 30 per cent above year-ago levels, resulting in a doubling of capacity utilization from the post-Depression low of 30 per cent touched in December, 1982 to 60 per cent by April, 1983.

. . . The Midwest Benefits

One can almost see the recovery spreading throughout the country. Since the economy's driving forces at the moment are the housing and auto industries, states dependent on motor vehicle, steel and lumber production have been the first to feel the improvement. For the nation's industrial heartland, which suffered a severe blow from the 1981-82 recession on top of its earlier decline, these developments bring a good measure of cheer. The region, which is believed to encompass Indiana, Illinois, Michigan, Ohio, Wisconsin and Pennsylvania, produces half of the nation's cars and trucks, two thirds of its steel, more than one quarter of all manufactured durable goods and 60 per cent of the country's machine tools.

To be sure, it is unlikely that the economic recovery will return many of Smokestack America's indus-

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tries to their previous peak levels of production and employment. Structural changes in technology, low capacity utilization and relatively high interest rates are holding back investment in a lot of the goods produced in this region. Unemployment in the states of this region remains above the national average, with Michigan's rate of 15.5 per cent in May the highest of the ten largest industrial states in the country. But for a region which was mired in recession for more than four years, even a small improvement is a welcome development. Many major industrial cities of the region report that their unemployment rates are edging down from their peak levels.

In the longer run, the region's hope might lie in diversification—in moving away from traditional manufacturing toward such high-technology and service-oriented industries as education, health care, finance and trade, which are less sensitive to the swings in the business cycle. The Midwest may be better prepared to make such a transition than it seems. A study released recently by the Joint Economic Committee of the U.S. Congress concluded that the region could attract more high-technology businesses because of its skilled labor force and many universities. Major efforts by local business and political leaders are under way to attract new industries, but the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/1/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	149.394	+ .086	+10.448
Loans to Depository Inst.	1.133	+ .182	+ .085
Float	1.716	+ .067	− .707
Total Reserve Bank Credit	160.338	+ .599	+ 9.128
Treasury Deposits with Federal Reserve Banks	2.883	− .083	+ .045
Currency Outside Banks	141.683	+ .447	+11.373
Member Bank Reserves:			
Required	37.745	+ .105	− 1.177
Excess (Deficiency)	.500	+ .040	− .172
Total Reserves Held	38.245	+ .145	− 1.349
Net Free Reserves	.006	− .118	− .010
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.083	+ 2.133	+19.048

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	508.5	+ 13.6‡	+ 12.1‡
M2 (May '83)	2,097.9	+ 9.7	+ 13.4
M3 (May '83)	2,479.2	+ 8.4	+ 10.6
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/10/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.20%	8.35%	8.50%
* Federal Agencies	8.73	9.05	9.70
* Project Notes–Taxfree (46% Taxable Equivalent)	8.70	9.07	10.37
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.30	9.55	10.10

‡Finance Company Paper–Prime

5- 14 days	8.75%
15- 29 days	8.88
30- 59 days	9.00
60- 89 days	9.00
90-179 days	9.00
180-239 days	8.88
240-270 days	8.88

‡* Bankers' Acceptances

Jul.	9.00%
Aug.	9.00
Sep.	9.00
Oct.	9.10
Nov.	9.10
Dec.	9.05

‡Industrial Paper–Prime

30- 89 days	8.90%
90-120 days	8.90

†Federal Funds Effective Rate 8.80%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,486	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.5	− 1.1	− 5.1
Change in Consumer Prices (new series)*	Apr '83	7.2%	1.2%	2.4%
Change in Producer Prices*	May '83n	3.6%	− 1.2%	0.0%
Civilian Employment (Thousands of Persons)†	May '83	99,557	99,458	99,994
Unemployment as % of Civilian Labor Force†	May '83	10.1%	10.2%	9.4%
Personal Income*	Apr '83	$ 2,679	$ 2,659	$ 2,536
Leading Indicators Composite Index (1967=100)†	Apr '83	152.4	150.7	136.0
Industrial Production Index (1967=100) †	Apr '83	142.6	139.7	140.2
Net Change in Consumer Installment Credit†	Mar '83	$ 2.58	$ 0.74	$ 0.63
U.S. Merchandise Trade Balance †	Apr '83	−$ 4.60	−$ 3.63	−$ 0.50
Plant and Equipment Expenditures*	3rd Q'83n	$306.83(a)	$302.23r(a)	$315.79
Private Housing Starts (Thousands of Units)*	Apr '83	1,490	1,627	911
New Construction Expenditures*	Apr '83	$ 248.0	$ 246.9	$ 226.1
Total Business Inventories †	Mar '83	$ 502.9	$ 508.5	$ 520.4r
Total Business Sales †	Mar '83	$ 346.0	$ 339.8	$ 347.1r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

transition will not be quick or painless.

Diversification Aids New England

Perhaps the best example of a transformation from an aging industrial base to sectors less sensitive to the business cycle is the New England region. Such old-line manufacturing industries as textiles and shoes have been largely replaced by a new industry mix encompassing high-technology, health care, trade, finance, law, insurance, business consulting and management firms. Defense-related industries are another source of economic strength. New England which provides only 7.6 per cent of the nation's total manufacturing jobs, receives about 13 per cent of the nation's prime defense contracts, amounting to $13 billion.

In March, 1983, the region's jobless rate was only 8.8 per cent, two percentage points below the seasonally unadjusted rate of 10.8 per cent for the nation. By contrast, in the 1973-75 recession, which was less severe than the slump of 1981-82, New England's unemployment rate far exceeded the nation's. For example, in 1975, 8.5 per cent of the nation's labor force was unemployed, while in New England 10.3 per cent were jobless—the highest rate of all the major regions. M

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/25/83)	95,133	+ 532	–40,690
New York City (5/25/83)	23,408	+ 46	–10,685
Commercial Paper (5/25/83)	169,630	– 514	– 6,882*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/25/83)	212,619	– 397	+ 3,489
New York City (5/25/83)	56,787	– 264	– 1,891

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/25/83)	497,326	– 1,082	+11,038
New York City (5/25/83)	113,535	– 359	+ 793

Financial Markets

	Friday 6/10/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.94%	– .02	– 3.68
180-Day Bills†	9.26	– .04	– 3.94
Longest Bills†	9.44	– .04	– 4.12
Recent Issues:			
9⅞s 5/31/85	10.03	– .05	
10¼s 3/31/87	10.36	– .04	
10⅛s 5/15/93	10.78	– .07	
10⅜s 11/15/12	10.87	– .08	
Municipals:			
Bond Buyer–20 Bond Index* (6/9/83)	9.69%	– .09	– 2.71
Blue List Total ($ Million)	$1,280	– $ 40	+ $223
30-Day Visible Supply ($ Million)	$2,415	– $479	– $439
Total	$3,695	– $519	– $216
Corporates:			
Moody's Aa Composite (6/9/83)	12.21%	+ .06	– 2.92
30-Day Visible Supply ($ Million)	$900	+ $310	– $1,105
Stocks:			
Dow-Jones Averages:			
Industrials	1,196.11	– 16.93	+ 386.37
Transportation	572.94	+ 21.88	+ 254.44
Utilities	126.80	– 2.81	+ 16.84
65 Stocks	479.48	+ .84	+ 162.83
Standard and Poor's 500 Stocks	162.68	– 1.74	+ 51.44
N.Y.S.E. Composite Index	94.45	– .68	+ 30.51
N.Y.S.E. Avg. Daily Vol. for Week (000's)	85,830	+ 2,895	+ 32,356

* 46% Taxable equivalent 17.94%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/10/83	Week Ago
Overnight	8.88%	8.75%
1 month	9.50	9.19
3 month	9.75	9.38
6 month	10.00	9.63
1 year	10.31	9.88
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.45%	11.35%
Long Term (7 to 15 yrs.)	11.55	11.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/10/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01960	51.03
Canada	.8109	1.2332
Denmark	.1096	9.1200
France	.1302	7.6825
Germany	.3920	2.5513
Italy	.0006614	1512.00
Japan	.004127	242.30
Mexico	.006734	148.50
Netherlands	.3498	2.8590
Switzerland	.4715	2.1210
U.K.	1.5803	.6328

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